

San Jose Mayor Chuck Reed

State of the City Speech

March 7, 2007

Good morning. Welcome, everyone, and thank you for coming to the 2007 San Jose Community Breakfast.

I would like to congratulate the honorees who were just introduced. Thank you for helping to make our city better. Let's give them another round of applause.

And I want to thank Les White for his kind introduction, and our emcees, Francine Davis and Mohammed Chaudry, for helping us reintroduce a great, old tradition, the community breakfast.

I attended my first community breakfast and heard my first State of the City speech in 1983 when Tom McEnery was Mayor. Two things stand out when I think about that speech. First, it was a terrific speech. Second, Tom, I don't remember a thing you said.

Yesterday was an election day, and I want to welcome and congratulate Pierluigi Oliverio who will take office in a few days.

The last 65 days since I took office have been a whirlwind of activity for me and I want to thank my transition advisory committee, Vice Mayor David Cortese, the Council Appointees, and the many people in city hall who have helped me.

Although my time in office has been short, we have made a significant start.

My colleagues on the City Council and I have forged a good working relationship that will help us solve problems together. I thank them.

I launched a campaign to reach out to Silicon Valley businesses, to let them know how much we value their contributions to our city. I have met with over 40 CEOs and have spoken to thousands of business leaders to tell them: We appreciate your business and want you to stay here and grow here!

We saw progress at the very first City Council meeting of the year when the Council started implementing the Reed Reforms, a series of measures to help instill honesty, fiscal responsibility and open government into the culture of city hall. There's more to be done, but you all can be proud of the work the Council has begun to restore public trust.

Some of the Reed Reforms created a new community-based budgeting process and we held the first-ever neighborhood association priorities-setting session.

We also involved the community in the process to find a new city manager. Thanks to all the people who participated.

We restarted an effort for better collaboration with our school districts so we can help

them provide a quality education for all our children.

Working with some of our regional partners, like the Silicon Valley Leadership Group, the San Jose Chamber of Commerce and the VTA, we secured additional funding from the California Transportation Commission for major transportation projects, like BART and congestion relief.

That's some of what we have done in the past two months. It's a good start and the credit goes to a lot of people.

Now let's turn to the state of the city.

San Jose is a good city with great people, but it's not yet a great city.

I want to thank the people of San Jose for their efforts to make San Jose a place where people from around the world can live, work and play together in peace and prosperity. I can't say enough about the wonderful people of this city.

However, today I will focus on the future and our key challenges. Then I will talk about some of the things that we should do, we can do, and we will do, to move San Jose along the road to become a great city.

Over the last two months, as part of our new budget process, our neighborhood leaders, our senior staff and the City Council have worked hard to set priorities. We also heard from our residents through a community survey. One thing is crystal clear from all that effort: We cannot become a great city unless we eliminate our structural budget deficit.

That is our greatest challenge. The budget deficit is public enemy number one, an enemy that will steal our hopes and kill our dreams of becoming a great city if we ignore it.

The operating budget, or General Fund as we call it, pays for neighborhood services like public safety, streets, parks, libraries, community centers and swimming pools.

Unfortunately, we are 16 million dollars short of having enough money next year to continue to deliver the same level of services as we did this year. Next year will be the sixth year in a row of budget shortfalls, and shortfalls are projected for at least four years after that.

The City Charter requires us to balance the budget every year. That's a good thing by the way, but for the last five years we've balanced the budget by reducing services to our neighborhoods and businesses.

As a result, our streets and parks are deteriorating, our pools are closed and the time it takes for the police to get to your house when you have an emergency is getting longer.

We have a backlog of over 400 million dollars for repairs, maintenance and other work to fill potholes and get our buildings, parks and streets into good condition. We need to spend another 25 million dollars a year to keep things from getting worse.

We have an unfunded liability of more than a billion dollars for retiree medical care. Paying it off over time will cost nearly a hundred million dollars a year for 30 years.

We need hundreds of additional police officers to do all the things that we want from the police department. The additional cost would be about 120 million dollars per year.

We are rightfully proud of our title as the Safest Big City in America, but that title is at risk. Over the past five years we've focused police resources on patrol and emergency calls to deal with violent crimes. Our police officers have been stretched thin and they have to put in too much overtime. Property crimes are rising.

We can't be a great city if our neighborhoods and schools are not safe. That's why I recommend the City Council authorize adding 15 police officers next year. That's not as many as we need, it's not as many as I would like, but it's a down payment to keep us safe.

I need to drop in a little footnote here to let you know that we also have some major budget problems outside of the operating budget. For example, we need to rebuild our 50-year-old wastewater treatment plant. The price tag for the work is 50 million dollars a year for 20 years. Yes, that amounts to another billion dollars.

Now, before I ruin your breakfast with problems, I want to talk about solutions.

We have a structural budget deficit because our expenses are going up faster than revenues. The solution is to reverse that relationship. We can do that by growing revenues faster, slowing growth in expenses and becoming more efficient in the middle.

Of course, it's much easier said than done. But it must be done. Continuing to cut services to our neighborhoods year after year is not acceptable.

I challenge the young leaders who are here today to prepare themselves to lead this city. I challenge all of us to have the commitment, the creativity and the courage to eliminate our deficit so that it will not become a crushing burden for our children.

We can do it and we will do it, before I leave office.

A former governor of Colorado explained deficits this way: "Christmas is the time when kids tell Santa what they want and adults pay for it. Deficits are when adults tell government what they want and their kids pay for it."

We are not going to run up huge deficits that our kids have to pay for. You would not do that to your family and we are not going to do it to our city. Here's what we are going to do.

First, the easy part: growing our revenues. Let me tell you what we should do, we can do, and we will do.

For starters, Silicon Valley companies are growing again, especially in North San Jose where our new development policies are working. That's good news. But we can't take it for granted that the companies that drive our economy will stay here and grow here. We have to be business friendly to get the revenues we need to improve our neighborhoods.

One essential step is to improve the permitting process. We don't need another study or another task force or another consultant. We know what's needed, we have the people that can do it, and we have already shown how it can be done with tenant improvement and industrial tools programs.

We will set performance measures for service, empower the staff and then insist on success. I pledge to you that one year from today San Jose's permitting process will be measurably improved.

We need to attract new companies. Many of you may not know that in our BioScience Incubator in Edenvale, 25 companies are developing new ideas and products. We will seek federal funds to help us develop a pilot manufacturing facility that will allow these bioscience innovators to grow in San Jose so they do not have to outsource jobs.

Two of San Jose's most important buildings, the convention center and the arena, have brought in millions of people to spend money and generate hotel tax, sales tax and parking revenues.

Both buildings are getting old and need capital investment to be brought back to first-class status so they can generate more General Fund revenues. It is also time to seriously consider expanding the convention center to bring in more people.

Building new housing in infill locations allows us to provide services more efficiently and new residents pay much more in property taxes than most existing residents. The best location for infill housing is downtown. We can help by allowing downtown residential high rise developers to pay a fee for affordable housing instead of building the units themselves. That fee will generate more funds that we will use to build more affordable housing.

1st ACT Silicon Valley has developed a great vision for a vibrant, creative downtown that will help attract private investment. Let's get started on their plans to encourage iconic public art, outdoor meeting spaces, a wireless network, boutiques, cafes, clean streets and colorful signs.

Improving retail activity is a huge opportunity to grow our General Fund revenues. We are losing 20 percent of our sales tax revenues to other cities. That amounts to tens of millions of dollars every year in lost revenues. We have to redouble our efforts to implement our retail strategy and make it easier for major retailers to get through our approval process so our residents can buy what they want in San Jose. We have to do better and we will.

Strong neighborhoods are vital for economic development. That's why we have to continue our efforts in the Strong Neighborhood Initiative areas and Neighborhood Business Districts to enhance neighborhoods and attract private investment.

Growing revenues is the easy part. Now it's time to talk about the hard part: slowing the growth in expenses. Here are four categories of what we should do, we can do, and we will do.

First, change the budget process. We will start with a transparent, full-disclosure budget so that we can see every expense that is growing faster than revenues and all of the future impacts of our decisions.

We have to set priorities – and stick with them. That's why I started the Community Based Budget process and led the City Council in a priority-setting session. We have to make spending decisions in full light of all of our problems. That's why we held a hearing on New Initiatives and Unfunded Programs.

The second thing we have to do is look for opportunities to use capital funds to reduce our operating costs.

For example, become more energy efficient with green buildings.

Let's start by installing solar power on city buildings, like The Tech. Not only can we reduce operating costs, we also can showcase our local clean and green solar technologies, educate our kids and community, end our addiction to oil and help reduce global warming.

To help pay for such capital improvements, we should pursue loans and grants from the state and federal governments.

When we get rebates from PG&E for energy conservation, we should reinvest that money into green building projects to decrease operating costs.

We should use affordable housing capital dollars to help the homeless by building more Extremely Low Income housing units. We can save operating expenses in our police, code enforcement and transportation departments by moving the homeless off the streets and into permanent housing. And it's the right thing to do.

The third way to slow the growth in expenses is to find new ways to be more efficient in delivering services.

We need to collect and analyze data to find inefficiencies and waste. Performance measures must be set and then monitored with real-time data. Other cities have done this. CompStat is a system pioneered by Mayor Rudy Giuliani in New York and refined in other cities. Baltimore has seen over 43 million dollars in cost savings, cost avoidances and revenue enhancements in the first three years.

San Jose is the Capital of Silicon Valley, where technology has made our private sector workforce the most productive in the world. The city has to do the same.

Assets and facilities that require a general fund subsidy must be reviewed so the City Council can determine if they are performing as expected or if they should be reorganized, refinanced, sold, leased or closed.

We should pursue opportunities to make underused land and buildings available for more productive uses that will generate income.

The City Auditor should review major contracts to determine if we are overpaying for services or failing to collect revenues. We should add to the Auditor's staff to allow for more performance audits. History shows that investments here are rewarded with savings. Over the past 22 years the City Auditor has returned more than seven dollars for every dollar the City spent on his office. Thanks, Jerry. Can you find us a few million more?

The General Plan needs to be updated. Fiscal analysis has to be a critical factor in the General Plan update and in all of our major land use decisions. The triggers for development in Coyote Valley should not be changed except as part of the update. For the Evergreen planning process, we must maximize employment capacity of the industrial lands or refer it to the General Plan update.

The fourth strategy is to get others to help us.

Nightclubs can help. We pay police officers nearly a million dollars of overtime in the downtown entertainment zone every year. The nightclubs that create the need for overtime must help pay for it. Those savings could help pay for new police officers.

Park neighbors can help. We have companies that want to maintain some of our parks. Let's figure out how to make it happen. New public parks that are built as part of new housing developments should be maintained by the property owner or an association. Every dollar saved in one of those parks will help us maintain another park elsewhere in the city.

Property owners can help. Many owners along Lincoln Avenue and downtown are willing to help pay for cleaner sidewalks and streets through a property-based Business Improvement District. We need to facilitate those efforts and develop a model that can be used in other business districts as well.

State and federal funds can help. Grants are available for parks and trail projects. We need to make sure we spend the money we have already received and apply for every dollar we are eligible to receive.

City employees can help. We need our dedicated and hard-working employees to help identify work that can be handled more efficiently. I will work with the City Labor Alliance to do so.

New ideas and new ways of doing things can help. I will form an advisory group of financial experts to help me review the budget to find options and alternatives for the City Council to consider. The Budget Shortfall Advisory Group will take a fresh look at how we spend our money, with everything on the table, no pet projects and no stone left unturned.

Those of you who paid 20 bucks for breakfast today helped. Not much, but every little bit helps. Thanks.

The strategies and actions I have outlined this morning are just the beginning of what must be done. Over the next month, I will be making a series of recommendations to the City Council for action on everything I have talked about.

We will wipe out the budget deficit by growing revenues and controlling expenses.

We will grow revenues by having a vibrant economy and adding more jobs.

We will control expenses by using capital dollars to reduce operating costs, being more efficient and getting others to help us.

And we will work through our difficulties in a budget process that is honest, open and fiscally responsible.

We will not pass these problems on to our children. We are going to take on these problems and we are going to succeed.

Think about the slide show that was running on the big screens before breakfast. "San Jose – 1975 to Today," a little something our Redevelopment Agency prepared. Thanks, Harry.

That show is a reminder that even though we have challenges, we can still make progress. Look how far we have come over the past 30 years, despite many obstacles. We, too, will make progress if we work together.

Please begin with me, starting today, to help build San Jose into a great city.

- A city that is a great place to live, work and raise a family
- A city that has clean and safe neighborhoods with good schools
- A city that is fiscally responsible and efficiently delivers quality services for its people
- A city with a downtown that is vibrant with arts, culture and entertainment and is connected by BART to a world-class airport
- A city with sustainable growth that preserves open space and protects the environment

- A city with full funding for parks, pools, community centers and libraries
- A city that merits the trust and confidence of the people
- A city that is the Capital of Silicon Valley, the innovation center of the world and a beacon of peace and prosperity for the world

The best days of San Jose are ahead of us. Please help me build San Jose into a great city. We know what we should do, we can do, and we will do -- together. Let's go to work.